

ORDER NO. 2837

UNITED STATES OF AMERICA
POSTAL REGULATORY COMMISSION
WASHINGTON, DC 20268-0001

Before Commissioners:

Robert G. Taub, Acting Chairman;
Tony Hammond, Vice Chairman;
Mark Acton; and
Nanci E. Langley

Periodic Reporting
(Proposal Ten)

Docket No. RM2015-19

ORDER APPROVING ANALYTICAL PRINCIPLES
USED IN PERIODIC REPORTING
(PROPOSAL TEN)

(Issued November 24, 2015)

I. INTRODUCTION

In a petition filed pursuant to 39 C.F.R. § 3050.11,¹ the Postal Service proposes to merge Cost Segment 4, Clerks, CAG K-L post offices with Cost Segment 3, Clerks and Mail Handlers, CAG A-J post offices² in its Cost and Revenue Analysis (CRA)

¹ Petition of the United States Postal Service for the Initiation of a Proceeding to Consider Proposed Changes in Analytical Principles (Proposal Ten), August 12, 2015 (Petition). Notice of the United States Postal Service of Revisions in the Attachment to the Proposal Ten Petition -- Errata, August 27, 2015.

² "CAG" refers to "cost ascertainment group" and is a method used by the Postal Service that classifies post offices based on volume of revenue generated. CAG K offices have 36–189 revenue units, and CAG L offices have less than 36. See Glossary of Postal Terms available at https://about.usps.com/publications/pub32/pub32_terms.htm.

Report. This Order provides background information, describes Proposal Ten, addresses related filings, and presents the Commission analysis and conclusion.

II. POSTAL SERVICE PROPOSAL

Proposal Ten proposes to eliminate the Cost Segment 4 worksheet in the CRA Report and merge the Cost Segment 4 trial balance accounts into the corresponding accounts in Cost Segment 3. The Postal Service also requests approval for FY 2015 reporting to include CAG K-L post offices In-Office Cost System (IOCS) readings with readings from CAG H-J post offices. It states that upon refreshing the sampling panels, CAGs H-L would be treated in IOCS as one stratum. Petition, Proposal Ten at 3-4.

Cost Segment 4 includes clerk costs for small post offices, separate from Cost Segment 3 clerks and mailhandlers costs. This distinction requires the IOCS to maintain a separate panel for CAG K post offices that generally only have one clerk. When there is no longer a clerk assigned to the post office, but only a postmaster whose costs would be reflected in Cost Segment 1, no IOCS readings can be obtained and the sampling variation increases until the sample is refreshed. The Postal Service asserts that the costs allocated to products in Cost Segment 4 are not statistically different from other small offices, *e.g.*, CAG H-J post offices. *Id.* at 2.

The Postal Service has noted that maintaining systems for the two cost segments is “an administrative burden” and requires that the IOCS maintain a separate panel of CAG K finance numbers that generally have one employee. Additionally, the Postal Service states that the implementation of POStPlan has affected clerk costs in both Cost Segments 3 and 4. This initiative, focused on small post offices, involved the evaluation of retail hours at over 13,000 small post offices with the net effect of reducing operating hours at these offices, and in some cases replacing postmasters with clerks, whose costs are included in both Cost Segments 3 and 4. *Id.*

The Postal Service asserts that combining the two cost segments and the IOCS sampling panels (CAGs K-L and CAGs A-J) would provide a more reliable analysis for

cost attribution resulting in a better assessment of clerk costs and avoiding distortions from the limited Cost Segment 4 IOCS activities currently being sampled. *Id.* at 5.

Proposal. All Cost Segment 4 trial balance accounts would be merged into corresponding 5-digit accounts in Cost Segment 3 with related changes to other trial balance worksheets. CAG K and L clerk costs in the CRA “B” workpapers would be incorporated into the total for the non-MODS office group for the formation of cost pools for mail processing, window service, and administrative activities. *Id.* at 4.

The CRA Report cost model would also be amended to remove the lines relating to Cost Segment 4 from the “Comp Master” and “DK Addends” worksheets from the master control file. *Id.*

III. PROCEDURAL HISTORY

On August 17, 2015, the Commission provided notice of the Postal Service’s Petition, established the instant docket for consideration of Proposal Ten, appointed a Public Representative, and provided the public with an opportunity to comment.³

CHIR No. 1. Chairman’s Information Request No. 1, issued August 24, 2015,⁴ sought clarification on several topics including the effect of the proposed merger of separate cost segments on the Postal Service National Consolidated Trial Balance; the current method and rationale for allocating the cost of clerks performing postmaster duties;⁵ and the current cost calculation and attribution for very small post offices. It also requested numerical support for the Postal Service’s statement that there is no

³ Order No. 2666, Notice of Proposed Rulemaking on Analytical Principles Used in Periodic Reporting (Proposal Ten), August 17, 2015.

⁴ Chairman’s Information Request No. 1, August 24, 2015 (CHIR No. 1).

⁵ In its Petition the Postal Service states that recent increases in Cost Segment 4 costs were a result of an arbitration ruling that shifted positions at very small post offices from postmasters (Cost Segment 1) to clerks (Cost Segments 3 and 4). CHIR No. 1 sought clarification on how total costs are calculated for these very small post offices, an explanation of which CAG levels represent very small post offices, and confirmation that attributable costs for CAG K and CAG L post offices would be readily available if Cost Segments 3 and 4 are merged.

statistical significance between the product cost distribution of Cost Segment 3 and Cost Segment 4 costs.

On August 26, 2015, the Public Representative filed a motion requesting the Commission issue an information request concerning several topics: the increase in Cost Segment 4 costs from the prior year; the impact of the proposal on data validity given the percentage of non-responses in the 2014 Annual Compliance Report (ACR); and Postal Service plans for utilizing the merged cost segments data to analyze the effects of POSTPlan.⁶ The Public Representative also performed a t-test⁷ revealing a statistically significant difference in the mean of tally dollar values between CAG K and CAGs H-J, and requested an explanation of the appropriateness of including CAGs H-L in one stratum. *Id.* at 2.

Postal Service Response to CHIR No. 1. In its Responses to CHIR No. 1,⁸ the Postal Service confirms that the 3-digit subaccount 105 for CAG K clerks will be deleted and the costs for those clerks will be included with the costs for CAG A-J clerks in Cost Segment 3, identified in the Chart of Accounts as subaccount 104. *Id.* question 1. It states that total accrued costs by CAG can currently be extracted from the Postal Service National Consolidated Trial Balance by summing the costs reported by finance number and will continue to be readily available should the proposal be implemented. *Id.* question 2.

The Postal Service refers to the “Summary Description of USPS Development of Costs by Segments and Components, Fiscal Year 2014,” for the current method and rationale for attributing costs to clerk activities. *Id.* question 5. It states that postmaster and clerk duties at CAG K post offices are similar in nature and include processing mail, window service, and other administrative tasks. It states that Cost Segment 4

⁶ Public Representative Motion for Issuance of Information Request, August 26, 2015.

⁷ The t-test is a statistical test involving confidence limits for the random variable *t* of a *t* distribution and used especially in testing hypotheses about means of normal distributions when the standard deviations are unknown.

⁸ Responses of the United States Postal Service to Questions 1-5 of Chairman's Information Request No. 1, August 31, 2015 (Responses to CHIR No. 1).

distribution methods are simpler than Cost Segment 3; Cost Segment 4 costs are divided into either 100 percent variable or institutional. Mail processing is considered 100 percent variable in both cost segments, whereas window service and administrative tasks are broken down more finely in Cost Segment 3 using transaction time studies not available for smaller CAG K post offices. *Id.*

The Postal Service states that it used a Chi-square test to compare the direct tallies between CAGs K and H-J strata and notes that FY 2014 shows a statistically significant difference between the two strata, but results for the prior two years are not significant. The Postal Service emphasizes that the variation in yearly CAG K distribution is very large but when FY 2012 through FY 2014 are pooled together there is no statistically significant difference between CAG K and CAGs H-J. *Id.* question 3.

CHIR No. 2. Chairman's Information Request No. 2, issued September 8, 2015,⁹ sought clarification on the reduction in costs assigned to Periodicals;¹⁰ the data validity of a modified IOCS sample after the proposed merger;¹¹ and the Postal Service's statement that current separation of Cost Segments 3 and 4 complicates analysis of POSTPlan.

Postal Service Response to CHIR No. 2. In its Responses to CHIR No. 2,¹² the Postal Service explains that the reduction in Periodicals costs in FY 2014 is consistent with the current IOCS sampling variability in Cost Segment 4 and notes that the proposed larger set of tallies from a combined CAG H-L IOCS panel should eliminate instances of products with zero costs. *Id.* questions 1, 3. It also explains that under the proposal, Cost Segment 4 would be included with "non-MODS" post offices in Cost Segment 3. *Id.* question 1.

⁹ Chairman's Information Request No. 2, September 8, 2015 (CHIR No. 2).

¹⁰ From FY 2008 through FY 2013, a portion of Cost Segment 4 costs were assigned to Periodicals, however, those costs declined from \$642,000 in FY 2013 to zero in FY 2014.

¹¹ Currently Cost Segment 4 has more limited IOCS data resulting in some products erroneously showing zero costs.

¹² Responses of the United States Postal Service to Questions 1-3 of Chairman's Information Request No. 2, September 16, 2015 (Responses to CHIR No. 2).

The Postal Service states that Cost Segment 4 does not facilitate an analysis of POSTPlan because the definition of small post offices under POSTPlan does not correspond to CAG levels. *Id.* question 2a. It also notes that it has no specific plans to utilize data from the proposed merged cost segments in an analysis of POSTPlan. *Id.* question 2b.

CHIR No. 3. Chairman's Information Request No. 3, issued October 14, 2015,¹³ requested the Postal Service to provide a method of ensuring sufficient representation of CAG K-L post offices in a combined IOCS stratum, the rationale for eliminating CAG K clerk subaccount 105 in the Chart of Accounts, and to respond to potential issues arising from maintaining separate Cost Segment 3 and 4 workpapers by using data from a combined CAG H-L IOCS panel to distribute costs by function to the products. The request also noted the Commission's use of the CAG K-L post office costs to estimate the cost of the Universal Service Obligation (USO) and asked for an explanation of the separation and reporting of these costs under Proposal Ten. It also inquired about the decline in the IOCS sample size for CAG K offices since FY 2009 and the effect of that decline on the coefficients of variation.

Postal Service Response to CHIR No. 3. In its Responses to CHIR No. 3,¹⁴ the Postal Service states that CAG K post offices will be randomly selected for the IOCS stratum which is expected to comprise 35 to 40 percent of the combined CAG H-L IOCS panel because a larger proportion of clerks are in CAG K-L offices than CAG H-J offices. *Id.* question 1. The Postal Service maintains that the proposed combination of very small post offices in the CAG H-L IOCS panel and the addition of CAG K post offices to other "non-MODS" offices should minimize operational differences. *Id.* question 2.

The Postal Service asserts that eliminating CAG K clerk subaccount 105 from the Chart of Accounts would be administratively convenient. *Id.* question 3. It confirms the

¹³ Chairman's Information Request No. 3, October 14, 2015 (CHIR No. 3).

¹⁴ Responses of the United States Postal Service to Questions 1-6 of Chairman's Information Request No. 3, October 22, 2015 (Responses to CHIR No. 3).

viability of separately stating subaccount 105 in the Cost Segment 3 cost pool workpapers with no modification to the CRA “B” workpapers. *Id.* question 5. The Postal Service also suggests using the non-labor costs for CAG K-L offices as an alternative to the current Commission method of calculating that portion of the cost of the USO. *Id.*

The Postal Service states that CAG K offices with one clerk or no clerks (only a postmaster) are the cause for the decline in sample size since it was last refreshed in FY 2007. *Id.* question 6a.

IV. COMMENTS

A. Public Representative Comments

The Public Representative supports the proposed merger of Cost Segments 3 and 4 but recommends against the combination of CAGs K-L and CAGs H-J as one IOCS stratum.¹⁵

The Public Representative is concerned that a combined IOCS stratum would compromise data availability and quality. PR Comments at 3. He questions the ability to gather data required by the Commission’s established method of calculating the cost of maintaining small post offices in accordance with 39 U.S.C. § 3651(b) to determine the cost of the USO if the strata are combined.¹⁶ The Public Representative asserts that while there is no significant difference between the distribution of costs for CAGs H-J and CAGs K-L, their unequal average costs would obscure the costs of small post offices, and that the Postal Service should use the increase in clerks in small post offices as an opportunity to increase separate strata sampling of CAG K-L offices. PR Comments at 5.

¹⁵ Public Representative Comments on Proposed Changes in Analytical Principles Used in Periodic Reporting (Proposal Ten), September 25, 2015, at 7 (PR Comments).

¹⁶ *Id.* See Postal Regulatory Commission, Report on Universal Postal Service and the Postal Monopoly, December 19, 2008.

B. National Association of Postmasters of the United States Comments

The National Association of Postmasters of the United States (NAPUS) maintains that the merger of the two cost segments could potentially impede the cost analysis of small post offices.¹⁷ It is also concerned that the Postal Service may not be accounting for certain labor costs. NAPUS Comments at 1. In addition, NAPUS notes that the Commission uses the costs reported for CAG K-L post offices specifically for the purposes of calculating the cost of the USO. *Id.* at 2. It recommends increased sampling to reduce the high variability and unreliable cost data. *Id.*

C. Postal Service Reply Comments

The Postal Service agrees with the Public Representative that the growth of CAG K costs creates both the opportunity and the incentive to improve the IOCS finance number sample for CAGs H-L.¹⁸ However, it disagrees with the Public Representative's analysis that pooling the IOCS sample data would harm data quality. Postal Service Reply Comments at 1.

The Postal Service states that the CAG K data would not be lost in the aggregation of Cost Segment 4 with Cost Segment 3 since tallies include finance numbers where the observations were taken, which allows them to be associated with the specific CAG if necessary. *Id.* at 2. It also refutes the Public Representative's claim that pooling the cost segments would foreclose any opportunity to improve CAG K sample data. *Id.* It argues the opposite—that pooling of the IOCS data would considerably increase the CAG K sample size and improve its accuracy.¹⁹

¹⁷ National Association of Postmasters of the United States Comments on the Proposed Changes in Analytic Principles Used in Periodic Reporting (Proposal Ten), September 25, 2015, at 1 (NAPUS Comments).

¹⁸ Reply Comments of the United States Postal Service Regarding Proposal Ten, October 5, 2015, at 1 (Postal Service Reply Comments).

¹⁹ *Id.* All offices in the CAG H-L strata would be sampled at the same rate. Since the proportion of CAG K-L offices within the larger H-L universe has increased markedly, the effective sample size for CAG K would improve compared to the FY 2014 sample size of only four post offices.

The Postal Service also responds to the Public Representative's claim regarding the potential impact of the difference in the average cost of the two cost segments on the distribution of these costs to products. It observes that IOCS sampling is used to determine the distribution of costs to products and to develop the cost pools in each segment. *Id.* at 3. The pooling of IOCS strata would therefore improve the accuracy of the distribution of CAG K costs without affecting the overall cost calculation. *Id.*

The Postal Service also responds to NAPUS's concern that the proposal would impede the cost analysis of small post offices by confirming that it will still be possible to obtain clerk costs for offices in CAGs K-L. *Id.* at 4-5. The costs will continue to be available from accounting systems and are not affected by changes in how those costs are attributed to mail products. *Id.* at 5. Further, it highlights that a combined CAG K-L IOCS stratum is not synonymous with POSTPlan's definition of small post offices. *Id.*

V. COMMISSION ANALYSIS

The primary issues of concern with this proposal are the high variability in the IOCS sample for Cost Segment 4 and the potential impact on the calculation of a portion of costs for providing the USO.²⁰ With the merger of the two cost segments, there is also a potential for reduced transparency of clerk costs in the CAG K-L post offices.

The Postal Service asserts that a combined CAG H-L IOCS stratum reduces the high variability caused by insufficient data. It identifies reduced open hours and minimal staffing levels in CAG K-L post offices as likely causes for its difficulty collecting data for these offices.²¹ High variability in IOCS sampling may result in inaccurate allocation and distribution of costs to products. In its Responses to CHIR No. 3, question 1, the Postal Service estimates that CAG K-L offices would make up 35 to 40 percent of the

²⁰ 39 U.S.C. § 3651(b)(1)(A).

²¹ The Postal Service states that the increased sampling variation is caused by the decline in the number of IOCS tallies in CAG K offices. Petition, Proposal Ten at 2.

combined CAG H-J IOCS sample panel. However, it also notes that no formal analysis has been undertaken of the required sample size for the combined IOCS panel.

The Commission conditionally approves the combined IOCS sampling of CAG H-L post offices. The Postal Service's explanation of how the modification will reduce the high variability caused by limited IOCS readings of CAG K offices and thus improve the accuracy of data is reasonable. To ensure sufficient representation of CAG K-L post offices in the combined IOCS strata, the Commission directs the Postal Service to submit annually with its ACR, details of the combined IOCS sample selection separately for CAG K-L offices, until directed otherwise in a Commission Annual Compliance Determination or by Commission Order. This information shall be presented in a format similar to tables submitted in the Postal Service's Library Reference USPS-FY14-37 in Docket No. ACR2014.²² Future IOCS data sets should continue to provide the specific CAG-level detail for each sample record.²³

The Postal Service also notes that cost pools for Cost Segment 4 have been developed using the Cost Segment 3.1 distribution key for mail processing plants, which have different cost structures than the Cost Segment 4 post offices. The inclusion of CAG K-L offices with other non-MODS offices allows for the separation of cost pools by window service and administration in addition to mail processing. The Commission finds that this change in the development of Cost Segment 4 cost pools to a more granular and causally-related level will improve the quality, accuracy, and completeness of these data.

The Commission is required by 39 U.S.C. § 3651(b)(1)(A) to annually estimate the cost associated with providing services to areas of the Nation where, in the judgement of the Commission, the Postal Service either would not provide services at

²² Docket No. ACR2014, Library Reference USPS-FY14-37, December 29, 2014, Table 1 "First-Stage Universe Sample," Table 2 "Employee Sampling Rates by CAG and Employee Craft," and Table 3 "Unweighted Tallies Excludes Generated Records, Table of Craft by CAG" in the Preface Part IV Statistical Study design, In-Office Cost System (IOCS) Documentation.

²³ See, e.g., *id.* variables F7, F263, F264, and F9251 in the IOCS data dictionary provided in USPS-FY14-37 In-Office Cost System (IOCS) Documentation.

all or would not provide such services but for the requirements of title 39. The Commission has determined that maintaining small post offices should be included in its estimate of cost for providing the USO. To estimate the small post office cost for the USO, the Commission uses postmaster salaries and a portion of rents, utilities, and other operating costs. The American Postal Workers Union, AFL-CIO (APWU) arbitration agreement replaced Postmasters or Postmaster Reliefs (positions) in certain reduced-hour small post offices with clerks performing postmaster duties. Petition, Proposal Ten at 3. The Postal Service asserts that clerk costs recorded in Cost Segment 4 (CAGs K-L) for small post offices are not accurate as a result of the changes ensuing from POSTPlan and the APWU arbitration agreement. The Postal Service suggests aggregating CAG K-L costs reported by finance number on the trial balance as an alternative to the piggyback method of calculating the non-labor costs of maintaining small post offices.

To facilitate the fulfillment of the Commission's responsibilities under 39 U.S.C. § 3651(b)(1)(A), the Postal Service shall include a library reference with each Annual Compliance Report which presents the expenses for CAG K-L post offices recorded by finance numbers in the Trial Balance. This method is likely to improve the accuracy of the non-labor costs of small post offices.

The Commission approves the merger of the cost segments in the CRA Report, with Cost Segment 4 subaccount 105 CAG K-L clerk costs to be reported separately in Cost Segment 3 workpapers to preserve the transparency of clerk costs in smaller post offices.

VI. ORDERING PARAGRAPHS

It is ordered:

1. For purposes of periodic reporting, the Commission accepts the changes in analytical principles proposed by the Postal Service in Proposal Ten.
2. After the changes are implemented, each year as part of the Annual Compliance Report, the Postal Service shall submit details of the combined IOCS sample selection as set forth in the body of this Order.
3. After the changes are implemented, each year as part of the Annual Compliance Report the Postal Service shall submit as a Library Reference CAG K-L post office expenses by finance numbers in the Trial Balance as set forth in the body of this Order.

By the Commission.

Stacy L. Ruble
Secretary